

Message Text

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ACTION EUR-25

INFO OCT-01 NEA-14 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 EB-11 CIEP-02 TRSE-00 STR-08

OMB-01 CEA-02 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06

SIL-01 FEA-02 INT-08 SAM-01 DRC-01 /198 W

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R 161147Z MAY 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0396

INFO AMEMBASSY JIDDA

AMEMBASSY PARIS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 06087

DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: XGDS-1, DECLAS 5-16-04

TAGS: EFIN, UK

SUBJECT: ADDITIONAL U.K. TREASURY AND BANK OF ENGLAND

COMMENTS ON THE LEVER PROPOSAL; RELATIONS WITH
THE SAUDIS; AND ECG FINANCIAL DISCUSSIONS

REF: A) LONDON 5669; B) STATE 098647; C) LONDON 5982

SUMMARY: SENIOR U.K. TREASURY OFFICIALS REPORT CONCERN
ABOUT LEVER'S PROPOSAL LINKING OIL PRICING AND CURRENCY
RECYCLING. YAMANI HAS COUNSELED AGAINST CONSUMER PRESSURE
ON PRODUCERS. IMPORTANT CONTINUING ROLE SEEN FOR FINAN-
CIAL WORK OF ECG, POSSIBLY UNDER WP-3. END SUMMARY.

1. SENIOR H.M. TREASURY CAREER OFFICIALS HAVE GIVEN
TREASURY REPRESENTATIVES FURTHER DETAILS ON LEVER PLAN AND
POINTS OF OPPOSITION THAT IT RAISES IN H.M. TREASURY.

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LEVER DID APPARENTLY DISCUSS IT IN ADVANCE WITH P.M. WIL-

SON, BUT ONLY ORALLY. IT WAS NOT EXPLAINED IN FULL DETAIL NOR IN WRITING BY LEVER, WHO FELT THAT HE HAD MORE BACKING FOR IT FROM WILSON THAN APPARENTLY WAS THE CASE.

2. AFTER INITIAL PRESS REPORT BY PETER JAY ON MAY 7 (REF A), LEVER AND H.M. TREASURY DEPUTY SECRETARY RUSSELL BARRATT SPENT THE MORNING WORKING OUT BACKGROUND STATEMENT CONTAINED IN PARA 6, REF A.

3. U.K. GOVERNMENT MINISTRIES ARE NOW RECEIVING FEEDBACK ON LEVER'S CONVERSATIONS WITH SENIOR U.S. OFFICIALS, IN WHICH, ACCORDING TO OUR SOURCES, LEVER APPARENTLY DID NOT ALWAYS PRESENT THE IDENTICAL LINE TO U.S. LISTENERS. OUR SOURCES -- ATTRIBUTE THIS TO
-- LEVER'S EBULLIENT NATURE.

4. POINT IN LEVER PLAN ON WHICH H.M. TREASURY HAS MOST DIFFICULTY, IS IN LINKING OIL PRICE PAID WITH RECYCLING OF FUNDS. H.M. TREASURY CONSIDERS OIL PRICING QUESTION IS CONTENTIOUS, DIFFICULT, AND COULD LEAD TO UNNECESSARY CONFRONTATION UNDER LEVER'S PROPOSALS (AND YAMANI'S VIEWS IN LONDON REINFORCE THIS VIEW; SEE LONDON 5855). WHERE H.M. TREASURY SEES MERIT IS IN STRESSING URGENCY IN SOLVING THE RECYCLING PROBLEM AND SETTING UP AN INSTITUTION TO DEAL WITH IT, BUT THIS SHOULD BE CLEARLY SEPARATE FROM CONSUMER-PRODUCER DISCUSSIONS ON PRICE.

5. IN THIS CONNECTION, DURING DISCUSSIONS WITH H.M. TREASURY LAST WEEK, YAMANI STRESSED THAT SAUDIS COULD NOT ENVISAGE A CONSUMER-PRODUCER CONFERENCE OF TYPE ENVISAGED AT WASHINGTON ENERGY CONFERENCE. YAMANI TOLD H.M. TREASURY THAT SAUDIS ARE WORKING TO REDUCE OIL PRICE, BUT A CONSUMER-PRODUCER CONFRONTATION TOWARDS THIS END WOULD BE COUNTERPRODUCTIVE. OTHER MAJOR ITEM DISCUSSED WAS CONTRIBUTION THAT U.K. COULD MAKE TO SAUDI INDUSTRIAL AND ECONOMIC DEVELOPMENT.

6. BANK OF ENGLAND MIDDLE EAST ADVISER TELLS US THAT ON RECENT TRIP TO SAUDI ARABIA, HE FOUND SAUDIS GENERALLY UNRESPONSIVE TO OUTSIDE INVESTMENT ADVICE NOT ALREADY ACCEPTED.

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TED ON WORKING BASIS BY THE SAUDIS. HE HAD IMPRESSION THAT SAUDIS AND SAMA ARE SO DELUGED WITH OFFERS OF INVESTMENT ADVICE THAT THEY ARE CONCENTRATING PRIMARILY ON CHANNELING FLOWS THROUGH THE MAJOR INVESTMENT ADVISERS ALREADY ESTABLISHED WITH THEM. FYI WE UNDERSTAND THAT THIS INCLUDES MORGAN GUARANTY AND CHASE MANHATTAN END FYI. WE ASKED BANK OF ENGLAND OFFICIAL IF U.K. HAD MADE ANY PROGRESS IN SELLING MEDIUM OR LONGER TERM U.K. GOVERNMENT SEC-

URITIES DIRECTLY TO THE SAUDIS. REPORTS OF THIS NATURE
WERE RUMORED WHEN BANK OF ENGLAND GOVERNOR RICHARDSON
VISITED SAUDI ARABIA LAST YEAR. OUR CONTACT'S REPLY WAS
COY AND NONCOMMITTAL. HE SAID SAUDIS HAVE A PENCHANT FOR
SHORT-TERM SECURITIES; THEY ARE STILL CONSIDERING U.K.
PROPOSALS FOR MEDIUM AND LONG TERM INVESTMENT BUT THESE
APPARENTLY HAVE NOT YET BORNE FRUITION. HE CONFIRMED
POINTS MADE BY H.M.TREASURY THAT DISCUSSIONS ARE TAKING
PLACE ON ROLE OF U.K. IN DEVELOPING SAUDI ECONOMY. QUOTE

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 06087

DEPT PASS TREASURY AND FRB

THE SAUDIS HAVE THE MONEY; WE HAVE THE TECHNOLOGY; THE
PROBLEM IS TO BRING THEM TOGETHER. UNQUOTE. NOT SURPRI-
SINGLY, SOURCE SAID U.K. AMBASSADORS IN THE MIDDLE EAST
ARE ENCOURAGING FREQUENT TRAVEL IN THAT AREA BY U.K. FIN-
ANCIAL OFFICIALS.

7. IN BRIEF CONVERSATION, RUSSELL BARRATT REPORTED THAT HE FORESEES A CONTINUING IMPORTANT LONGER TERM ROLE FOR ECG FINANCIAL EXPERTS. HE LARGELY CONFIRMED HIS EARLIER COMMENTS ON THE WAY U.K. SEES THIS PARTICULAR ECG ACTIVITY ITS ROLE IS AS A FORM OF SURVEILLANCE OF AND INSURANCE THAT APPROPRIATE WORK IS BEING DONE IN OTHER INSTITUTIONS. THIS MUCH SAID, BARRATT ALSO FELT STRONGLY THAT THE ECG FINANCIAL EXPERTS SHOULD EVENTUALLY BE INSTITUTIONALIZED ELSEWHERE, PERHAPS AS PART OF WP-3, C-20 OR IMF. U.K. DOES NOT HAVE FIRM VIEWS ON WHICH WOULD BE BETTER CHOICE. WHILE ACKNOWLEDGING THAT THE WORK OF ECG-8 HAS BEEN EASIER
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BECAUSE OF THE ABSENCE OF FRENCH DELEGATES, BARRATT ALSO FELT THEIR ABSENCE TO BE A WEAKNESS AND CITED THE NEED TO GET THEM REINVOLVED IN THESE TYPE DISCUSSIONS.

8. ABOVE COMMENTS WERE GIVEN TO US IN CONFIDENCE. PLEASE TREAT THEM AS NOFORN.

SOHM

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